

Message Text

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TO SECSTATE WASHDC 4205

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TAGS: FIN EIND EINV MR

SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: STATE 165596

EMBASSY RESPONSE TO REFTEL FOLLOWS:

1. NARRATIVE STATEMENT FOR MAURITANIA:

AS A RESULT OF THE NOVEMBER 1974 NATIONALIZATION OF MAURITANIA'S LARGEST INDUSTRY, THE IRON MINES, AND THE FEBRUARY 1975 TAKE-OVER OF THE SECOND LARGEST INDUSTRY, THE COPPER MINES, THERE IS MINIMAL PRIVATE FOREIGN INVESTMENT IN MAURITANIA TODAY. COMPENSATION HAS ALREADY BEEN AGREED UPON FOR THE COPPER MINES BUT NEGOTIATIONS ARE CONTINUING FOR COMPENSATING THE PREVIOUS OWNERS OF THE IRON MINES.

THE GIRM INSISTS, HOWEVER, THAT MAURITANIA REMAINS A GOOD PROSPECT FOR FOREIGN INVESTMENT. A RECENT DOCUMENT PUBLISHED BY THE RULING PARTY CLAIMS THAT:
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(1) THE KEY SECTORS OF THE ECONOMY SHOULD BE IN THE

HANDS OF THE STATE, (2) A MIXED SECTOR SHOULD EXIST WHERE THE STATE COOPERATES WITH PRIVATE CITIZENS AND FOREIGN PUBLIC AND PRIVATE INTERESTS, AND (3) THERE IS ROOM FOR A PRIVATE SECTOR CONSISTING OF MAURITANIANS AND FOREIGNERS. OBJECTIVE JUDGMENT ON MAURITANIA'S DESIRE FOR A PRIVATE SPHERE MUST BE SUSPENDED, HOWEVER, UNTIL THE GIRM PROVIDES ADEQUATE COMPENSATION TO THE FORMER SHAREHOLDERS OF THE IRON MINES.

THE MAURITANIAN INVESTMENT CODE PROVIDES INCENTIVES SUCH AS TAX WRITE-OFFS FOR FOREIGN INVESTORS. IN PRACTICE, EACH INVESTMENT AGREEMENT IS NEGOTIATED ON AN AD HOC BASIS. THE GOVERNMENT HAS A LIBERAL POLICY ON THE EMPLOYMENT OF EXPATRIATE PERSONNEL, BUT EXPECTS BUSINESS AND INDUSTRY TO INSTITUTE LONG-RANGE TRAINING PROGRAMS FOR MAURITANIANS. APART FROM FOREIGN EXCHANGE LIMITS ON TRAVEL AND SALARIES, CURRENT PAYMENTS ABROAD ARE AUTHORIZED FREELY SUBJECT TO PROOF THAT THE TRANSACTION IS GENUINE. UNDER THE PROVISIONS OF LAW NO. 74.022 DATED JANUARY 24, 1974, ALL OUTWARD CAPITAL MOVEMENTS REQUIRE THE PRIOR APPROVAL OF THE CENTRAL BANK.

IN 1973 MAURITANIA LEFT THE FRANC ZONE, CREATED ITS OWN NON-CONVERTIBLE NATIONAL CURRENCY, AND IMPOSED STRICT LICENSING AND FOREIGN EXCHANGE CONTROLS. THE INTRODUCTION OF ITS OWN CURRENCY HAS HAD THE EFFECT OF SLOWING DOWN TRANSACTIONS FOR MOVING GOODS AND SERVICES INTO AND OUT OF THE COUNTRY. OTHER INVESTMENT CONSTRAINTS ARE THE SCARCITY OF PROFITABLE PROJECTS IN A COUNTRY WHERE FUEL, ELECTRICITY, AND WATER ARE MORE EXPENSIVE THAN IN MOST UNDERDEVELOPED COUNTRIES, AN EXTREMELY LIMITED INTERNAL MARKET AND SPARSE POPULATION, PROHIBITIVE TRANSPORT COSTS, AND SHORTAGE OF SKILLED HUMAN RESOURCES.

THE GIRM IS ACTIVELY SEEKING TO DIVERSIFY ITS
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ECONOMIC AND COMMERCIAL RELATIONS IN ORDER TO END ITS PREVIOUS DEPENDENCE ON FRANCE. UNDER A 1964 BILATERAL AGREEMENT, OPIC POLITICAL RISK INSURANCE IS AVAILABLE TO US INVESTORS IN MAURITANIA; HOWEVER, NO SUCH INSURANCE HAS YET BEEN ISSUED. FINALLY THE GIRM HAS READY ACCESS TO PETRODOLLARS. AS A RESULT, THERE IS NO COMPELLING NEED FOR US PRIVATE INVESTMENT AT THIS TIME. WE BELIEVE THE US

SHOULD EMPHASIZE THE PROVISION OF TECHNOLOGY AND
TECHNICAL ASSISTANCE RATHER THAN INVESTMENT DOLLARS.

2. INVESTMENT STATISTICS FOR MAURITANIA:

A. US DIRECT INVESTMENT (BOOK VALUE) AT THE END
OF 1974.

THE INTERNATIONAL METALS CORP. (IMC) HELD A
THREE PERCENT SHARE IN THE SOCIETE DES MINES
DE FER DE MAURITANIE (MIFERMA), WHICH WAS
THE ONLY DIRECT, FIXED US INVESTMENT IN?
MAURITANIA. MIFERMA WAS NATIONALIZED IN
NOVEMBER 1974 AND NEGOCIATIONS FOR COMPENSATION
ARE CONTINUING. THE IMC PORTFOLIO INVESTMENT
HAD AN ESTIMATED VALUE OF \$3 MILLION. THROUGH
1974, US OIL COMPANIES HAD INVESTED MORE THAN
\$30 MILLION IN EXPLORATION IN MAURITANIA. AT
THE PRESENT MOMENT, THERE ARE NO US OIL
COMPANIES ACTIVE IN THE COUNTRY NOR DO
AMERICAN PETROLEUM COMPANIES HAVE ANY FIXED
ASSETS HERE.

B. DIRECT INVESTMENT BY ALL COUNTRIES (BOOK VALUE)
NOT BROKEN DOWN BY SECTOR, AT THE END OF 1974
(EMBASSY ESTIMATES):

TOTAL, INCLUDING US - \$ 45 MILLION
OTHER COUNTRIES (TOP THREE)

FRANCE	-	\$ 20 MILLION
KUWAIT	-	\$ 10 MILLION
UNITED KINGDOM	-	\$ 4.5 MILLION

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C. 2'DIRECT INVESTMENT IN THE US BY MAURITANIANS
(BOOK VALUE) AT THE END OF 1974:
THERE WAS NO DIRECT INVESTMENT IN THE UNITED
STATES BY MAURITANIAN NATIONALS.

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